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S E C R E T SANA 001692

NOFORN
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NEA/ARP AMACDONALD AND INR SMOFFAT
E.O. 12958: DECL: 09/19/2019

TAGS: [EAID](#) [ECON](#) [PGOV](#) [PREL](#) [SENV](#) [YM](#)

SUBJECT: DAS SANDERSON HEARS OF PROMISING ECONOMIC AND
WATER REFORM PROPOSALS THAT NEED PRESIDENTIAL PUSH

REF: SANA 1549

Classified By: Ambassador Stephen Seche for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY. In a September 15-16 visit to Yemen, Deputy Assistant Secretary (DAS) Ambassador Janet Sanderson met with ROYG officials, advisors, and European diplomats to discuss some of Yemen's most pressing social and economic challenges. Foreign Minister Abubakir al-Qirbi pressed for a "strategic dialogue" between the United States and Yemen in order to ensure that the relationship is not dominated by security and counter-terrorism issues. Economic advisors presented an ambitious plan for achieving their top 10 priorities for economic reform. Environment and Water Minister Adulrahman al-Eryani urged that Yemen's water crisis, increasingly a driver of conflict and instability, be a major issue on the bilateral agenda, and he asked for political, rather than financial, support to put it there. European Ambassadors grappled with how to press Saleh for political and economic reforms, recommending high-level U.S. engagement with Saudi Arabia, and advising U.S. officials to be blunt and "brutally honest" in their conversations with President Saleh. With respect to economic development and addressing the water crisis, Yemeni advisors and officials have formulated thoughtful and realistic reform proposals that will require political -- specifically presidential -- will in order to have any hope of being implemented. END SUMMARY.

DREAMING OF A "NEW CHAPTER" IN US-YEMENI RELATIONS

¶2. (S/NF) Foreign Minister Abubakir al-Qirbi told Ambassador Sanderson in their September 15 meeting that Saleh's primary goal for his upcoming visit to Washington is to "start a new chapter in Yemeni-US relations." (Note: The visit has since been postponed and remains to be re-scheduled. End Note.) According to Qirbi, over the past eight years, the relationship has been "overshadowed by terrorism and counter-terrorism," but a new chapter can begin with the launching of a "strategic dialogue." Although the structure and function of this proposed "strategic dialogue" remain murky, Qirbi described it as a "mechanism to do regular consultations on all issues" on the bilateral agenda, in order to ensure that dialogue between the two countries is continuous and forward-looking rather than reactive and crisis-driven. In his parting words, Qirbi urged Ambassador Sanderson to help make Saleh's visit to Washington "a landmark visit for better relations."

TOP TEN ECONOMIC PRIORITIES

¶3. (SBU) DAS Sanderson met with the group of Western-educated ROYG officials behind the new Top 10 Economic Priorities (reftel). Deputy Finance Minister Jalal Yaqoub described civil-service reform, particularly a new program to attract 100 Yemeni expatriates to senior government positions, as the key that would unlock the other priorities on the list, including attracting new oil companies, gradually lifting diesel subsidies, and sending unskilled Yemeni laborers to GCC markets. DAS Sanderson urged the group to view presidential engagement not as one among a list of priorities, but an essential prerequisite for

the implementation of each item.

WATER SHORTAGE THREATENS STABILITY

¶ 14. (S/NF) In their September 16 meeting, Dr. Abdulrahman al-Eryani, Minister of Environment and Water, expounded upon Yemen's "insidious" water crisis and ways to ameliorate it. Eryani described Yemen's water shortage as the "biggest threat to social stability in the near future." He noted that 70 percent of unofficial roadblocks stood up by angry citizens are due to water shortages, which are increasingly a cause of violent conflict. He reported that small riots take place nearly every day in neighborhoods in the Old City of Sana'a because of lack of water, and he predicted that the capital could run out of water as soon as next year.

According to Eryani, one of the major causes of Yemen's dwindling water supply is the lack of water governance. Hundreds of privately owned, unregulated rigs are used to drill private wells deep into the earth in search of water. The owners of these drills are "running wild, drilling holes everywhere. We need to control these private rigs." A major obstacle to doing so is that fact that the rig owners are powerful individuals)- army officers, sheikhs, members of the president's family, and certain government ministers -) who are "untouchable" by the law. Another major cause is agriculture. Up to 85 percent of water is used for agriculture, and half of that is for growing the narcotic drug qat.

¶ 15. (S/NF) Eryani said that one "very easy way to make water use more efficient" is to lift diesel subsidies. Cheap diesel is leading to the water crisis because, on the one hand, "many farms would no longer be sustainable if their owners were paying the right price for diesel," and on the other, it fuels the private rigs that are running rampant across the country. Eryani also recommended greater water conservation and even water harvesting at the household level. He urged that water become part of the bilateral agenda. In his opinion, the greatest support the US government can provide is "political, not financial," in order to elevate the water issue on the political agenda in Yemen and in its relations with donors.

EUROPEAN AMBASSADORS: GET SAUDI TO BACK REFORM

¶ 16. (S/NF) In a September 16 lunch with European Ambassadors, much of the discussion focused on what levers of influence could push the Saleh regime to reform. First and foremost, they said, is Saudi Arabia, which plays a critical role in Yemen due to the considerable financial support it provides to both the Saleh regime and hundreds of Yemeni sheikhs on its payroll. (Note: It was noted that KSA reportedly has given the ROYG \$300 million in recent months, to prosecute its war against the Houthis and attend to other pressing needs. End Note.) The participants agreed that even if KSA could be convinced to demand more reform from Saleh in return for its support, if unnerved by instability in Yemen, KSA would likely break ranks and infuse Yemen with cash, without reform strings attached. The Ambassadors agreed that threatening to cut off development aid is not an effective lever for demanding political reform. According to the German Ambassador, "Saleh doesn't care if we give \$80 million or \$200 million in development aid. What he wants is political support against the Houthis and the Southern Movement."

¶ 17. (S/NF) The Ambassadors cautioned that Saleh will try to use his meeting with Obama - whenever it might occur - as an endorsement of the war against the Houthis and other policies. In order to gain some reforms from Saleh, the British Ambassador advised, "The brusker, the blunter, the better. Saleh doesn't understand anything if it's framed diplomatically." The British Ambassador suggested getting Saleh out of his comfort zone by discussing imperative economic reforms, as his capacity to argue against them is much weaker. With respect to Qirbi's proposed strategic dialogue, the Ambassadors thought that it could be beneficial in two ways. First, it could help correct course, so that the entire US-Yemeni relationship does not get thrown off-course by incidents that inflame public sentiment and get embroiled in domestic politics. Second, it could provide a framework for ramping up aid over time provided that certain

conditions are met along the way.
NEW BILATERAL ASSISTANCE AGREEMENT

18. (U) Ambassador Sanderson attended a signing ceremony at the Ministry of Planning and International Cooperation marking a bilateral assistance agreement to fund essential development projects in the fields of health, education, democracy and governance, agriculture, and economic development. The agreement will provide over \$30 million in FY2009 in the first tranche of incremental funding for the three years agreement. USAID has already put out a tender to fund one of the ROYG's Top 10 Economic Priorities, a program to attract the "top 100 talent" into the civil service, and is looking for ways to support other elements of the initiative.

COMMENT

19. (S/NF) Ambassador Sanderson's interlocutors were pleased that she chose Yemen for her first visit to the Maghreb and Gulf region. They were also pleased that she focused on economic development and the water crisis, fundamental reform issues that are often overshadowed by seemingly more urgent security concerns. On both fronts, Yemeni advisors and officials have formulated thoughtful and realistic reform proposals. Their successful implementation requires political -- specifically presidential -- will. To date, President Saleh has not demonstrated significant interest in these two issues, but the U.S., Saudi Arabia, and European donors should continue to pressure him to tackle them before the situation deteriorates further. END COMMENT.

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